

Meta-Analysis of Gold Price and Major ASEAN Currency (Malaysian Ringgit, Singapore Dollar, Thai Baht) Against US Dollar

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ABSTRACT

With the exit of Bretton Woods System and the Gold Standard, the floating exchange rate, was adopted by most country in the ASEAN region. Floating exchange rate has been a major debacle issue for the volatility of world gold price in relation to national currency value including that of the ASEAN region. The motivation behind this empirical study is to examine the relationship between gold price and exchange rate of ASEAN major currencies such as Malaysian Ringgit (MYR/USD), Singapore Dollar (SGD/USD), and Thai Bath (THB/USD) against the US dollar. Gold price is primarily dominated in US dollar, and any variation in US dollar may influence the value of other currencies. The monthly meta-analysis involves the study of a span of 30-year data, effective from 1981 to 2010. While the findings report no short term relationship, a Johansen Co-integration test finds evidence of a long term relationship between gold price vis-a-vis the exchange rate of major ASEAN currencies, such as MYR/USD, SGD/USD and THB/USD. Further evidence from Ordinary Least Square analysis shows that gold price has a positive relationship with MYR/USD but reports perverse relationship against SGD/USD and THB/USD.

Keywords: ASEAN currency, gold price, meta-analysis, US dollar

INTRODUCTION

The medium of exchange over the centuries among many countries has seen many magnitudes of changes and evolutions. No single currency or medium has been considered stable over times. The early stage of trading involves barter trading, which developed into using commodities as medium of exchange beside gold. Oil discoveries and its significance compel researcher to make an analysis on the relationship of gold, oil prices, US dollar and the stock market (Azar, 2015). Studies were enhanced on exploring relativity among gold, oil and foreign currencies and how much would one unit affects the other (Malliaris and Malliaris, 2013; Zagaglia and Marzo, 2013)). Gold price adopted as a medium of exchange, has been a stabilizing driver of the exchange rate for centuries (Broz and Frieden, 2006) and has been considered as a substitute for portfolio risk reduction (Mansor, 2011). On many occasions, gold can be used as an investment hedge against the US dollar (Joy, 2011). The post 2nd world war saw the abandonment of the Gold Standard due to socio-economic instability caused by the war. A new international monetary system called the Bretton Woods Agreement of 1944 was established to maintain a fixed but adjustable exchange rate system. However, the Bretton Woods regime was short-lived, when the President of the United States, Richard Nixon declared an end to the use of gold standard in 1971, due to the insufficient supply of US gold stock to support the value of the pegged rate of US \$35 per ounce of gold.